PHILIPPINES ECONOMIC WRAP-UP

JUNE 09-15, 2001

Summary

The government revised economic growth targets downward to reflect, among others, weaker than expected global economic prospects. Reflecting the economy's slowed expansion, automotive manufacturers reported lower vehicle sales during the first five months of the year. We also report on the banking system's nonperforming loan ratio as of April (which hit a new high of 16.25%) and on the shakeout affecting stock brokerages in the languishing stock market. We also cite the latest quarterly (i.e., April) employment/underemployment data -- noting that the overall unemployment rate declined year-on-year but that a big chunk of the overall employment expansion reflected an increase in "unpaid family workers."

These weekly reviews are available on the Embassy's web site (http://usembassy.state.gov/manila). We provide a longer and more detailed review of the Philippine economy in our June 2001 Economic Outlook, which is also available on our web site.

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FOREX REPORT

There was little on both external and domestic fronts to prop up the peso during the week. Softer regional currencies and continued political jitters over the Abu Sayyaf hostage drama pulled down the local currency, with limited new foreign exchange inflows and increasing uncertainties over export and balance of payments prospects also contributing. The peso ended the week at 51.590/US$ (down 1.3% from its June 8 close of P50.910/US$). (See Section II for detailed forex data.)

Exchange Rate Tables

Date	Weighted Average (Pesos/US$)	Closing (Pesos/US$)	Volume (Million US$)
MAY 07	50.504	50.440	59.0
08	50.477	50.460	76.5
09	50.482	50.650	120.5
10	50.624	50.590	137.0
11	50.487	50.300	117.5
MAY 14	Markets Closed		
15	50.321	50.180	131.1
16	50.136	50.140	127.5
17	50.162	50.260	111.1
18	50.342	50.330	132.5
MAY 21	50.609	50.840	148.3
22	50.789	50.645	124.2
23	50.438	50.300	184.0
24	50.287	50.340	168.0
25	50.449	50.505	106.5
MAY 28	50.774	50.770	160.5
29	50.703	50.500	120.4
30	50.584	50.565	177.5
31	50.495	50.500	162.6
JUN 01	50.750	50.633	150.0
JUN 04	50.800	50.765	103.5
05	50.645	50.590	121.7
06	50.643	50.720	143.0
07	50.762	50.710	85.2

08	50.803	50.910	128.1
JUN 11	51.079	51.190	181.0
12	Markets Closed		
13	51.326	51.310	191.0
14	51.309	51.360	105.6
15	51.479	51.590	122.4

Source: Bankers Association of the Philippines

CREDIT MARKET REPORT

Rates generally softened further at the government's June 11 T-bill auction as banks continued to park excess funds in short-term government securities. Expectations of a downward bias in U.S. (and, consequently, Philippine central bank) policy rates also provided room for T-bill rates to fall further. Rates for the benchmark 91-day T-bills declined for a fifth consecutive week to average 8.729% (the lowest since May 22, 2000). The 182-day bills shed another 13.9 basis points week-on-week to settle at 9.700%. The average rate (10.823%) for the 364-day bills, however, inched up slightly by 3.1 basis points from the June 4 auction –- which Philippine Treasurer Sergio Edeza attributed to a "technical correction" following the previous week's relatively pronounced 51.5 basis-point decline. Analysts noted that peace and order worries and forex rate uncertainties may make T-bill rates stickier coming down, especially for the longer-term tenors, until the Bangko Sentral ng Pilipinas (BSP, the central bank) cuts policy rates further. (See Section II for detailed data on interest rates.)

Domestic Interest Rates (in percent)

Treasury Bills

Auction Date	91 days	182 days	364 days
MAY 07	no sales	no sales	no sales
MAY 15	9.513	10.915	11.350

MAY 21	9.306	10.750	11.352
MAY 28	9.037	10.087	11.307
JUN 04	8.913	9.839	10.792
JUN 11	8.729	9.700	10.823

Source: Bureau of the Treasury

Prime Lending Rates of 14 Expanded Commercial Banks

Date of Survey	Average	Range
MAY 03	13.4683	11.25 – 15.102
MAY 10	13.4861	11.25 – 15.012
MAY 17	13.2171	10.75 – 14.513
MAY 24	13.1013	10.75 - 14.500
MAY 31	12.8919	10.25 - 14.037
JUN 07	12.7849	10.00 – 14.000
JUN 14	12.8122	10.00 – 14.000

Sources: Bangko Sentral ng Pilipinas; press reports

STOCK MARKET REPORT

The Philippine Stock Price Index (Phisix) ended June 15 at 1479.30, gaining 4.9% from June 8’s 1410.50 closing level. Analysts attributed the increase to selective bargain hunting on blue chips following the preceding week’s losses. Looking forward, however, traders expected profit taking to eventually cap sustained gains for the Phisix, noting that economic prospects remain weak and that political jitters continue to cloud investor sentiment. (See Section II for detailed stock market data.)

Philippine Stock Exchange Index (PHISIX) and
Value of Shares Traded

Date	PHISIX Close	Value (Million pesos)
MAY 07	1431.91	466

08	1427.28	567
09	1441.77	352
10	1443.85	643
11	1484.83	1134
MAY 14	Markets Closed	
15	1457.97	497
16	1461.79	311
17	1453.03	376
18	1448.62	397
MAY 21	1446.20	363
22	1451.20	6939 /a
23	1446.20	726
24	1434.68	472
25	1410.23	1068
MAY 28	1395.12	412
29	1385.43	511
30	1396.50	399
31	1402.29	568
JUN 01	1416.09	669
JUN 04	1412.45	2394 /b
05	1392.71	597
06	1389.52	490
07	1406.65	405
08	1410.50	650
JUN 11	1435.77	682
12	Markets Closed	
13	1462.66	943
14	1474.11	799
15	1479.30	749

a/ includes P6.57 billion block sale of Pure Foods to San Miguel Corporation
b/ about P2 billion accounted for by trading of blue-chip Philippine Long Distance Telephone Co. (PLDT) shares (reportedly on news of a debt restructuring plan forged with creditors by PLDT’s struggling subsidiary Piltel)

Source: Philippine Stock Exchange

GOVERNMENT REVISES GROWTH TARGETS DOWNWARD . . .

The government revised its 2001 economic growth targets to reflect the global economy's worse-than-anticipated slowdown, as well as the Philippine economy's weaker than expected first-quarter performance of 2.5% Gross Domestic Product (GDP) growth year-on-year. The targeted GDP growth range for full year 2001 has been lowered to 3.3% to 3.8% (from 3.8% to 4.3%) and that for Gross National Product (GNP) to 3.8% to 4.3% (from 4.0% to 4.5%). The merchandise export growth assumption --originally placed at 4% year-on-year (US$ terms) -- has been scaled down to 1%. The government's revised targets are, nevertheless, still rosier compared with emerging private-sector consensus forecasts. Several analysts now see real GDP growth of 3% or so as the best expansion the economy might be able to muster for the full year.

. . . BUT RETAINS FISCAL GOALS

For now, the government is sticking to its full year P145 billion fiscal deficit ceiling despite the economy's slower targeted expansion. The full year tax collection target (P519.6 billion, P408 billion or 80% of which depends on internal revenue collections) was also retained. Department of Finance officials told the Embassy that, per simulations, a 3.3% (vs. 3.8%) GDP growth rate would translate into a P2-3 billion reduction in targeted tax revenues. Meeting (or at least approximating) the full year target depended more heavily on implementing administrative improvements -- including the use of electronic metering machines for documentary stamp taxes, the expanded coverage of the Bureau of Internal Revenue's Large Taxpayers' Unit, and more vigorous on-site tax audits.

In press interviews, newly-installed Department of Finance Secretary Jose Isidro "Lito" Camacho also told reporters that his department would work on beefing up nontax revenues (such as overdue adjustments in government fees and charges and the stricter monitoring of dividend remittances to the Treasury by state-owned corporations). The government has kept a tight reign on disbursements over the past months, spending below programmed levels to keep the deficit in check because of persistent shortfalls in tax collections.

VEHICLE SALES DOWN

Reflective of the economy's slowed expansion, the Chamber of Automotive Manufacturers of the Philippines (CAMPI) reported that industry sales (in number of units) slumped 15.9% year-on-year in May 2001. Cumulative sales for the January-May 2001 period declined by 14.9% from 2000's comparable five-month level. The passenger car segment was especially hard-hit, with May 2001 sales off by nearly 23% and cumulative five-month sales down by 27.6%. Sales of commercial vehicles –- which mustered modest increases in 1999 and 2000 –- also have not been spared thus far from weaker demand. Commercial vehicles sold in May 2001 were down 12% year-on-year and total sales for the January-May period were 7.6% lower.

AUTOMOTIVE INDUSTRY SALES

	(No. of Units) 2000	2001	% Growth
May, Total	6,916	5,818	(15.9)
Passenger Cars	2,449	1,887	(22.9)
Comm'l Vehicles	4,467	3,931	(12.0)
Jan-May, Total	34,025	28,952	(14.9)
Passenger Cars	12,374	7,954	(27.6)
Comm'l Vehicles	21,651	19,998	(7.6)

Source: Chamber of Automotive Manufacturers of the Phil.

BANKS' NONPERFORMING LOAN RATIO AT NEW HIGH

Per latest BSP estimates, the commercial banking system's ratio of nonperforming loans (NPLs) inched up from 16.60% in March (revised figure) to 16.65% in April (a new high). Before this new record, the NPL ratio was highest in February 2001 (16.62%). The nominal level of NPLs increased by 2.7% (P7 billion) month-on-month, outpacing a 2.4% (P36.9 billion) expansion in total loans (inclusive of inter-bank credits). Including interbank credits, aggregate loans were up 5.6% year-on-year; and, excluding inter-bank transactions, by 6.1% from the April 2000 level.

Restructured loans (without which NPL ratios would be higher) increased by 1.1% (P1.1 billion) from the March 2001 level. As of end-April, restructured accounts equaled 6.3% of commercial banks' outstanding loans-- lower than in March (6.4%) but up from April 2000's 5.3% ratio. Foreclosed assets (net of allowances for probable losses) thinned slightly (0.2%) month-on-month and equaled 4.3% of commercial banking system assets (down somewhat from March's 4.4% ratio). Banks beefed up loan loss reserves by 2% (P2.2 billion) during the month; nevertheless, the commercial banking systems' coverage ratio (i.e., the ratio of loan loss reserves to NPLs) declined from 42.7% (March) to 42.4% (April) because of the faster pace of NPL growth. April 2000's comparable coverage ratio was 43.7%.

Bankers doubt that NPL ratios have peaked, noting that businesses are struggling with both weaker export and domestic markets. Credit expansion also has been modest. Saddled with NPLs and foreclosed assets (equivalent to 13.2% of total assets as of April), banks remain cautious lenders, while weaker economic growth prospects this year spell conservative credit demand.

COMMERCIAL BANKS – SELECTED INDICATORS

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	2 0 0 1 April	2 0 0 1 March r/	2000 April
In Billion Pesos			
Total Loan Portfolio (TLP) a/	1,589.9	1,553.1	1,505.7
Non-Performing Loans (NPL)	264.7	257.7	217.8
Loan Loss Reserves (LLR)	112.2	109.9	95.2
Restructured Loans (RL)	100.4	99.1	79.6
Foreclosed Assets (FA, net) b/	131.1	131.4	100.4

Foreclosed Assets (FA, gross)	135.7	135.6	107.0
Non-Performing Assets (NPA) c/	400.5	393.4	318.2
Total Assets (TA)	3,027.8	2,968.4	2,659.3
Selected Ratios (%)			
NPL/TLP	16.65	16.60	14.46
LLR/NPL	42.36	42.65	43.72
LLR/TLP	7.05	7.08	6.32
RL/TLP	6.32	6.40	5.29
FA (gross)/TA	4.48	4.57	4.02
NPA/TA	13.23	13.25	11.97

a/ Includes inter-bank credits
b/ Net of allowance for probable losses
c/ Sum of NPLs and gross foreclosed assets

Source: Bangko Sentral ng Pilipinas

STOCK BROKERAGES HIT BY WEAK EQUITIES MARKET

According to Philippine Stock Exchange (PSE) officials, six of its member firms have voluntarily suspended trading operations since the beginning of the year. Another brokerage (Securities 2000--an affiliate of Singapore Technologies) has informed the PSE that it will suspend operations this July. Five of the seven firms are foreign brokerage companies (including the likes of Nomura Securities, UOB Securities, and Orion Squire Capital). Five brokerages also voluntarily suspended operations in 2000, three of them foreign (including Sung Hung Kai Securities and Paribas Asia). PSE officials estimated that some 20 PSE member-firms have voluntarily suspended Philippine operations since 1998 (about half representing foreign member-firms), noting that the “shakeout” accelerated during the past one-and-a-half years. Although a few of the suspended operations were an offshoot of mergers between the firms’ parent companies, most ceased operations because of unfavorable market conditions. PSE officials said the exchange was bracing for a further shakeout, as brokerages found it increasingly difficult to cope with overhead costs in a thin market.

EMPLOYMENT UPDATE

The latest labor force survey (conducted quarterly in January, April, July, and October) showed the unemployment rate at 13.3% as of April 2001, an improvement from the 13.9% rate as of April 2000. (Note: The unemployment rate is seasonally higher in April because of new graduates entering the Philippine labor force.) The number of employed persons increased by 7.2% year-on-year (equivalent to nearly 2 million new jobs). The agricultural sector accounted for the bulk (54.8%) of new jobs generated between April 2000 and April 2001, followed by services (32.6%), and industry (12.5%). Among the employed, the share of underemployed workers (i.e., those seeking additional hours of work) declined from 24.7% (April 2000) to 17.5% (April 2001), equivalent to some 1.6 million less persons on the underemployed category.

Although the overall unemployment rate declined year-on-year, it is worth noting that about 45% of the year-on-year increase in the number of employed persons reflected an expansion in unpaid family workers and another 40% by own-account (or self-employed) persons. The numbers suggest that weakened economic prospects limited business’s ability to employ wage and salary workers. They also reflect the relatively larger share of unpaid family workers found in the agricultural sector. Based on the April survey, agricultural workers accounted for 80% of the overall year-on-year increase in unpaid family workers. Agriculture has traditionally absorbed a disproportionate (40%) share of the employed relative to its barely one-fifth share of Philippine GDP.

This year’s full year unemployment rate (computed as the average of quarterly surveys and estimated at 11.2% in 2000) is likely to remain at double digits given more modest economic growth prospects. The average unemployment rate for the January and April 2001 surveys was 12.4% (versus the January and April 2000 average). The unemployment rate in the January 2001 survey jumped to 11.2% from 9.5% the year before, reflecting typhoon-related job losses in agriculture (and demonstrating the labor sector’s heavy dependence on agricultural sector employment).